



The City of San Diego

Staff Report

DATE ISSUED: 2/8/2022
TO: City Council
FROM: Stormwater Department
SUBJECT: Stormwater Funding Strategy Final Audit Response

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Council District(s): Citywide

OVERVIEW:

This report is in response to Recommendation #6 detailed in the June 2018 Office of the City Auditor (OCA) report entitled "Performance Audit of the Storm Water Division: The Storm Water Division Can Further Improve the Efficiency of Its Infrastructure Maintenance and Code Enforcement Efforts, but the City Ultimately Needs to Address Significant Storm Water Funding Shortages"¹ (hereafter referred to as "Audit"). In February 2021, the Stormwater Department (SWD) presented the *Stormwater Funding Strategy* (the "Funding Strategy")² to City Council as a thorough response to the Audit's finding that stormwater funding is insufficient to meet current and future needs and presented a long-term strategy to secure additional funding. The Funding Strategy included the recommendation for further evaluation of the viability of a stormwater funding mechanism that may require voter approval, in alignment with Audit Recommendation #6. Table 1 summarizes specific Audit Recommendation #6 requirements and SWD responses and actions. The below discussion summarizes overall findings.

Table 1. Audit Recommendation #6 Requirements and City Action/Response

Audit Recommendation #6 Requirement	City Action/Response
<ul style="list-style-type: none">Hire consultant to conduct unbiased, statistically reliable survey of potential voters to estimate voter support for a variety of	In FY2021 and FY2022, the SWD hired a consultant (Fairbank, Maslin, Maullin, Metz, & Associates or FM3 Research) to conduct three surveys and four focus groups.

¹ City of San Diego. 2018. *Performance Audit of the Storm Water Division: The Storm Water Division Can Further Improve the Efficiency of Its Infrastructure Maintenance and Code Enforcement Efforts, but the City Ultimately Needs to Address Significant Storm Water Funding Shortages*. Office of the City Auditor. https://www.sandiego.gov/sites/default/files/18-023_storm_water_division_0.pdf.

² City of San Diego. 2021. *Stormwater Division Funding Strategy January 2021*. Stormwater Division. [Stormwater Funding Strategy Report.pdf \(sandiego.gov\)](#)

Audit Recommendation #6 Requirement		City Action/Response
funding options deemed viable by long-term funding strategy.		
<ul style="list-style-type: none"> When conducting survey, educate stakeholders on stormwater issues including: 	Flood prevention	<p>Surveys and focus groups involved a battery of educational and informational statements that included each recommended education component, among others (Section 2.0 Public Opinion Research Strategy).</p> <p>The SWD continued broad education and engagement efforts on these issues, including them as part of Environment Committee and City Council presentations related to stormwater issues and the relaunch of Think Blue San Diego.</p>
	Deferred capital backlog	
	Ongoing operational costs	
	Water regulations	
	Stormwater funding gap	
<ul style="list-style-type: none"> Solicit voter opinions and analysis on: 	Importance of water quality and flood reduction to residents and businesses	<p>Surveys and focus groups solicited voter feedback on many stormwater issues, perceived need for stormwater funding, and willingness to pay.</p>
	Whether, and how much residents or property owners are willing to pay for water quality measures, stormwater infrastructure, and other SWD activities	
	Funding mechanism structure options	<p>Surveys and focus groups assessed the viability of different funding mechanism structure options, including:</p> <ul style="list-style-type: none"> Parcel type rate basis Impermeable area³ rate basis Variable rate amounts for both parcel type and impermeable area rate basis
<ul style="list-style-type: none"> Solicit voter opinions and analysis on (continued): 	Identify objections and strategies to overcome them	<p>Surveys and focus groups assessed responses to both educational and critical statements related to stormwater issues.</p>
	Whether the funding mechanism can be obtained by a simple majority or a two-thirds supermajority	<p>Surveys and focus groups tested viability of different funding mechanism structure options to assess voter response thresholds.</p>
<ul style="list-style-type: none"> Based on results, modify plan to pursue selected funding mechanism(s) and execute the plan 		<p>The City revised the Funding Strategy Implementation Actions Update document, which reflects updates to the plans to pursue (Appendix A).</p>

In accordance with Audit Recommendation #6, overall findings from public opinion research are:

³ For the purposes of the Funding Strategy, impermeable area is characterized as any solid surface where water cannot penetrate, causing it to run off (e.g., roofs, driveways, sidewalks, and walkways)

- Ongoing general education and community engagement for stormwater is essential.
- Public opinion research shows initial support, exceeding a 50% + 1 threshold and within the margin of error for a two-thirds voter threshold, for a stormwater funding measure with a charge based on impermeable area.
- Support for funding stormwater exists, and there appears to be a strong sense of need for additional funding for stormwater, with high levels of importance placed on benefits provided by such a measure.

This report represents the final official response to the Audit per the "Management Response to City Audit of the Storm Water Division" Memorandum submitted to the City Auditor on June 12, 2018.

PROPOSED ACTIONS:

This item is for information only.

DISCUSSION OF ITEM:

Public Opinion Research Strategy

The SWD conducted three surveys and four focus groups as part of the Funding Strategy development and implementation processes (Table 2). Each of the surveys and focus groups were framed to assess different components related to the viability of funding stormwater and how to communicate broadly about stormwater issues.

Table 2. Funding Strategy Public Opinion Research Summary

Public Opinion Research Activity	Audit-Related Outcomes	Primary Elements Tested
December 2020 Survey	Recommendation #5 (Funding Strategy)	<ul style="list-style-type: none"> • Understanding and values of stormwater issues across broader community and City interests • Perceived funding need • Educational and critical statements • Priorities related to stormwater
March 2021 Survey	Recommendation #6 (Funding Measure)	<ul style="list-style-type: none"> • Willingness to pay based on different funding measure charge basis (parcel type and impermeable area) • Educational and critical statements • Priorities related to stormwater
May 2021 Focus Groups	Recommendation #6 (Funding Measure)	<ul style="list-style-type: none"> • Core values for living in San Diego • Outcomes of stormwater programs • Awareness and understanding of stormwater issues • Understanding of potential funding measure label • Willingness to pay

Public Opinion Research Activity	Audit-Related Outcomes	Primary Elements Tested
August 2021 Survey	Recommendation #6 (Funding Measure)	<ul style="list-style-type: none"> • Willingness to pay at different rate amounts on an impermeable area charge basis (4.5 and 5 cents per square foot of impermeable area per year) • Educational and critical statements • Priorities related to stormwater

Each of the three surveys were dual mode (telephone and online), conducted in both English and Spanish, and conducted to facilitate proportional representation throughout the City as it relates to certain demographics (e.g., age, gender, race/ethnicity, geographic location, including Council District, etc.). Each of the surveys also included a set of questions that were asked of each respondent and a subset of questions that were part of a split sample where only half of the respondents were asked certain questions. The sample size of the surveys varied based on desired margin of error for both the full and split samples.

The four focus groups were conducted virtually with eight participants each (32 total) and grouped geographically: Coastal Region (Council Districts 1 and 2); Northeast Region (Council Districts 5, 6, and 7); Southeast Region (Council Districts 3, 4, and 9) and South Region (Council District 8). The focus group participants were recruited to generally reflect the demographics of each region (e.g., gender, race/ethnicity, age, homeownership, etc.); however, due to the sample size, the opinions cannot be generalized or extrapolated to the broader population of residents with any statistical precision.

Public Opinion Research Findings

The key findings for the three surveys conducted among voters in the City of San Diego are as follows:

- A strong majority of San Diegans perceive there is a need for additional stormwater funding.
- Ongoing education and engagement for stormwater issues is essential, with very large percentages of San Diegans placing value on the potential outcomes that could be achieved through stormwater funding.
- Impermeable area as the basis for a stormwater charge tested more strongly than property type.
- There is at least majority support for a stormwater funding measure.

There is a strong perceived need for stormwater funding:

A strong majority of voters agree the City needs more funding to maintain its storm drain system. Three-quarters of respondents also recognize the need for funding to clean and protect local water quality (Figure 1).

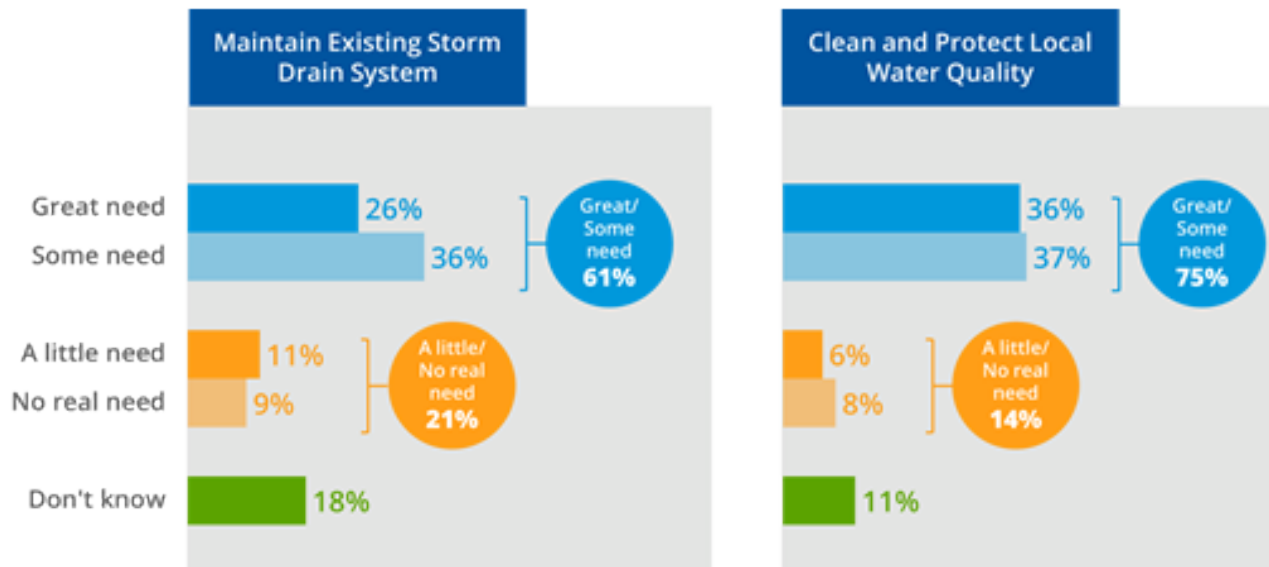


Figure 1: Opinions on the Need for Additional Funding (December 2020 Survey)

San Diegans value the potential outcomes that could be achieved through stormwater funding

Each of the surveys tested understanding, priorities and value associated with different components of stormwater management priorities. Overall, understanding of how the stormwater system works is moderately low. However, across the surveys, there was consistently a high level of interest in funding priorities such as: clean water, protecting natural waterways, infrastructure repair and improvements and improving water quality associated with a potential stormwater funding measure. Table 3 presents the priorities tested in the August 2022 survey where respondents valued the priority as “Very Important” or “Important.”

Table 3. Priorities for Outcomes Associated with a Potential Stormwater Funding Measure (August 2022 Survey)

Priorities	Percent “Very Important” or “Important”
Protecting the local supply of clean drinking water	87%
Keeping trash, liquid toxins, and pharmaceuticals out of our creeks, bays, lagoons, and coastal waters and off of our beaches	82%
Maintaining the highest possible standards of water quality	82%
Improving and protecting water quality	80%
Reducing pollution, trash, toxins/plastics entering local waterways, bays, oceans (and) beaches impacting public health and marine life	80%
Protecting marine life	78%
Protecting public health	75%
Preparing for future droughts	74%
Increasing safe drinking water supplies	74%
Capturing rain and stormwater for drought preparedness	69%
Preventing damage to roads from failed water pipes	67%
Maintaining pipes and channels that carry stormwater	66%

Preventing potholes, sinkholes, and flooding due to failed stormwater infrastructure	66%
Preventing flooding of streets, homes and businesses	66%

Impermeable area as the basis for a stormwater charge:

The March 2021 and August 2021 surveys tested funding mechanism scenarios. Survey results reflect two commonly used methods for calculating stormwater rates – impermeable area and property type – as well as stakeholder input that an equitable and non-regressive basis for rates be considered (Table 4):⁴

- **Impermeable area method:** uses a rate per square foot (SF) of impermeable area on a parcel or a subdivision of a parcel where there are stacked units (e.g., apartments and condominiums).
- **Property type-based method:** uses a flat rate for each single-family residential (SFR) parcel and each multifamily residential (MFR) dwelling unit but uses a per-SF impermeable area basis for all other parcels because of the wide variation across other property types.

Table 4. Funding Mechanism Scenario Ranges for an Impermeable Area Special Parcel Tax (March 2021 and August 2021 Surveys)

Rate Basis Tested in Surveys	Typical Single-Family Residential (SFR) Bill		Commercial/ Industrial Bill	Estimated Annual Revenue Generated (\$M)
	Median Annual	Median Monthly		
Property Type: \$68 SFR, \$48 MFR, \$250 all others*	\$68.00	\$5.67	Non-residential ratepayer impacts vary widely based on parcel-specific impermeable area***	~\$30 M
Property Type: \$89 SFR, \$69 MFR, \$500 all others*	\$89.00	\$7.42		~\$44 M
Impermeable Area: \$0.04 per SF*	\$128.00	\$10.67		~\$74 M
Impermeable Area: \$0.045 per SF**	\$144.00	\$12.00		~\$83 M
Impermeable Area: \$0.05 per SF **	\$160.00	\$13.33		~\$93 M

M = million

*March 2021 survey

**August 2021 survey

***Example parcel with 5,000 sq-ft impermeable area at rate of 4 cents per sq-ft impermeable area, 5,000 * \$0.04 per sq-ft = \$200 per year

Results from the March 2021 survey and May 2021 focus groups indicate an impermeable area basis performed better with voters and was perceived as a more equitable, fair basis for levying a stormwater charge. In addition, impermeable cover is the most common basis used for stormwater-related charges, with 87% of respondents of the 2021 Stormwater Utility Survey indicating impermeable area is the basis

⁴ City of San Diego. 2021. Stormwater Funding Strategy. www.thinkblue.org/fundingstrategy

for stormwater charges across the nation.⁵ This approach is often used because it charges ratepayers based on the relative contribution of stormwater runoff. In some cases, runoff volume may be used as a proxy for potential stormwater pollution generated from a parcel based on land use and other factors.

There is majority support for a stormwater funding measure:

The March 2021 and August 2021 surveys tested variable amounts for impermeable area to gauge voter thresholds for a potential stormwater funding measure. For each scenario tested, the survey respondents were presented a sample ballot question to obtain an initial response, provided with an equal number of educational and critical statements and asked for a response after each set of statements. For reference, the full sample ballot question tested in August 2021 is as follows:

"Shall an ordinance improving/protecting water quality; reducing pollution, trash, toxins, plastics entering local waterways/bays/ocean/beaches impacting public health and marine life; capturing rain/stormwater for drought preparedness; preventing road damage from failed water pipes; establishing an annual ~~4.5¢/5¢~~ per square foot of impermeable area clean water parcel tax, raising approximately ~~\$83,000,000/\$93,000,000~~ annually until ended by voters, requiring audits, public disclosure of spending, local control, be adopted?"

The poll reflects a ballot question representative of the elements of a potential funding measure for consideration (*noting that the ultimate ballot question and funding measure elements are subject to revision and final drafting by the City Attorney*):

- **Proposition 218 voter requirements shall be followed** to minimize the risk of a legal challenge, as reported in the July 2021 Funding Strategy Implementation Update and the City Attorney review of Senate Bill (SB) 231 and Assembly Bill (AB) 2403.⁷
- **The funding mechanism could be a special parcel tax**, which would levy a tax on each applicable parcel and would be limited for use as stated in the potential ballot measure.
- **An impermeable area basis could be applied**, which uses a rate per square foot of impermeable area on a parcel or a subdivision of a parcel where there are stacked units (e.g., apartments and condominiums)
- **Frame the Potential Funding Measure Around Program Goals**, which have been drafted in coordination with other City entities, community groups, and stakeholders to reflect the vision for a stormwater system for all San Diegans' benefit in which (1) innovation and efficiency are the backbone of the approach to clean water and flood control; (2) infrastructure adapts to meet the needs of a growing population and changing climate to ensure people, homes, and businesses are safe from flooding; (3) stormwater is managed as a resource to promote equity, sustainability, and resilience; (4) water quality is a point of pride; and (5) the SWD protects, restores, and enhances waterways for local communities and wildlife for future generations.
- **Tax rate structure**, which is the specific rate (e.g., cents per square foot) that the tax could be levied.
- **Exemptions** to the special parcel tax that identifies ratepayers that may not receive a tax bill. Exemptions being considered include public parcels, ad valorem exempt parcels, and low-income senior property owners.
- **Reductions or discounts** for ratepayers that could reduce the tax bill and account for variability in the ratepayer base, affordability, or equity (e.g., low-income areas).
- **Adjustments, incentives, credits, or rebates** could be included for ratepayers who participate in eligible stormwater-related programs (e.g., stormwater best management practices, rain barrels, etc.).
- **Eligible and ineligible expenditures** that could define what activities, programs, and project revenues from a funding measure can and cannot be spent on, respectively. Expenditures could also

⁵ Black & Veatch Management Consulting. 2021. *2021 Stormwater Utility Survey Report*.
<https://www.bv.com/resources/2021-stormwater-survey-report>.

include administration and collection of the funding measure, debt financing, workforce job training, and educational and outreach efforts, among others.

- **Debt and issuance of bonds** in order to issue new debt (bonds, loans) and/or pay existing debt service (such as the federal (WIFIA) and state (SRF) loans currently in various stages of approval) supporting the stormwater capital program and payable from and secured by the revenues associated with any future stormwater funding measure, voter approval of debt authorization for these activities may be required.
- **Program governance (decision-making, oversight, and accountability)** with elements like advisory and/or oversight committees, implementation plans, independent audits, annual budgets, and annual reporting.
- **Appeals processes** could be designed to allow for correction of errors in the administration or levy of the tax.

Figure 2 shows the results, which indicate there is at least majority support for a funding measure.

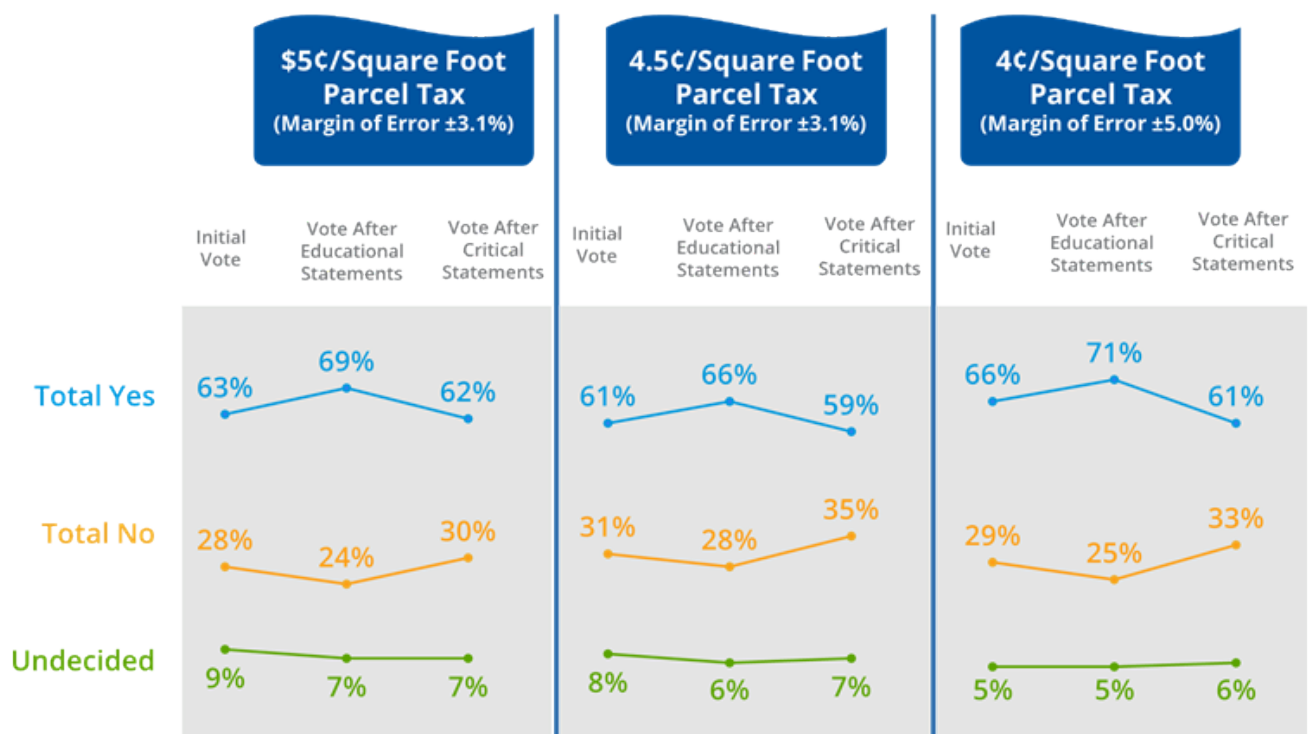


Figure 2. Survey Responses to Funding Measure Question with Variable Impervious Area Amounts Tested as an Initial Vote, Vote After Educational Statements, and Vote After Critical Statements with the Margin of Error Indicated

The SWD will continue to aggressively pursue other stormwater funding options:

The public opinion research findings indicate San Diegans acknowledge the SWD needs additional funding and the outcomes associated with a funded stormwater program are valued highly. As such, the SWD will continue to pursue other funding opportunities like grants, loans and cost recovery funding options (e.g., expand the street sweeping parking citation program, develop a stormwater inspection and reinspection fee program, and modify the current stormwater violation/fines matrix), as well as continue to incorporate innovation and efficiencies into day-to-day operations to maximize available funding.

City Strategic Plan Goal(s)/Objective(s):

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services.

Objective #4: Ensure equipment and technology are in place so that employees can achieve high quality public service.

Goal #2: Work in partnership with all of our communities to achieve safe and livable neighborhoods.

Objective #1: Protect the lives, property, and the environment through timely and effective response in all communities.

Objective #3: Invest in infrastructure.

Objective #4: Faster services that improve quality of life.

Objective #5: Cultivate civic engagement and participation.

Goal #3: Create and sustain a resilient and economically prosperous City.

Objective #1: Create dynamic neighborhoods that incorporate mobility, connectivity, and sustainability.

Objective #2: Increase water independence.

Objective #3: Diversify and grow the local economy.

Objective #4: Prepare and respond to climate change.

Objective #5: Enhance San Diego's global standing.

Fiscal Considerations:

Not Applicable

Charter Section 225 Disclosure of Business Interests:

N/A; there is no contract associated with this action.

Environmental Impact:

Not Applicable

Climate Action Plan Implementation:

The City's stormwater system provides multiple additional community benefits including improved mobility, walking and bike paths supporting the Mobility and Land Use Strategy (Strategy 3) Year-round activities by the SWD help the Zero Waste Strategy (Strategy 4) through targeted source reduction and reducing waste and trash that reach the stormwater system.

Equal Opportunity Contracting Information (if applicable):

Not Applicable

Previous Council and/or Committee Actions:

In June 2018, City Council received the "Performance Audit of the City of San Diego's Stormwater Division", which included recommendations #1-9. In February 2021, the City Council received the SWD response to Recommendation #5 and approved a resolution to continue assessment of a stormwater funding mechanism. An interim update on Funding Strategy implementation was provided to Environment Committee in July 2021 and November 2021, including public opinion research findings.

Key Stakeholders and Community Outreach Efforts:

The SWD, in coordination with the Communications Department and Mayor's Office, has successfully relaunched and rebranded Think Blue. The relaunch event took place in coordination with Coastal Cleanup Day on September 18, 2021. Through media and targeted upcoming events, the Think Blue initiative will continue to increase general public knowledge of the importance of stormwater operations to ensure clean water and clean beaches for all San Diegans.

The SWD has increased efforts to reach residents and community members, including:

- Outreach and education related to water conservation efforts like rebates that will include a bilingual hotline, community workshops, outreach materials at events and cleanups and a social media campaign.
- Outreach and education through a coordinated media campaign – print radio, TV, outdoor and digital advertising -- to inform the general public of the importance of improving stormwater quality to ensure clean water and clean beaches for all of San Diego. Scheduled to begin in mid-February with goal of 24 million impressions (the number of digital views or engagements for a piece of content) by the end of FY2022.
- Launching a revamped ThinkBlue.org website with more engaging content, such as educational videos, animations, interactive maps and data dashboards.

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